



*United States Attorney
Southern District of New York*

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**U.S. CHARGES HEDGE FUND MANAGER IN CONNECTION WITH
MULTI-MILLION DOLLAR SECURITIES FRAUD**

DAVID N. KELLEY, the United States Attorney for the Southern District of New York, announced the unsealing in Manhattan federal court of a two-count Indictment against ANGELO HALIGIANNIS, the manager of Sterling Watters Group LP ("Sterling Watters"), a New York City-based hedge fund. The Indictment alleges that over the course of the past four years, HALIGIANNIS defrauded investors out of tens of millions of dollars by dramatically overstating the fund's assets under management and performance, and - in a manner similar to a traditional "Ponzi" scheme - using new contributions only to make distributions to existing limited partners or to fund withdrawals made for HALIGIANNIS personally.

The Indictment alleges that Sterling Watters, a Delaware limited partnership headquartered in New York, was created by HALIGIANNIS in or about 1995 and purported to be in the business of investing in securities on behalf of its limited partners. HALIGIANNIS, according to the Indictment, served as the President and Chief Operating Officer of Sterling Watters' general partners.

The Indictment alleges that from in or about 1995 to in or about July 2004, HALIGIANNIS, provided Sterling Watters' limited partners with quarterly reports that purported to disclose the profit made on that limited partner's investment for the quarter in question, as well as the total profit made on the limited partner's investment since the investment was made.

The Indictment alleges that from in or about 1996 through in or about 2002, HALIGIANNIS reported to current and potential investors that Sterling Watters' return on its investments was as follows:

Year	Percentage Return
1996	53.93%
1997	76.04%
1998	24.28%
1999	87.00%
2000	41.45%
2001	22.27%
2002	17.24%

In addition, the Indictment alleges that HALIGIANNIS reported that, as of the close of the third quarter of 2003, the Partnership's portfolio had grown 30.41% for the year, and reported positive growth for the fourth quarter of 2003 and the first two quarters of 2004.

According to the Indictment, HALIGIANNIS, reported to current and potential investors that, compounding these returns, the Partnership had achieved investment returns of 1565% between 1996 and the third quarter of 2003. According to the Indictment,

HALIGIANNIS further reported to current and potential investors that, by the end of the third quarter of 2003, the Partnership had approximately \$180,000,000 in assets. The Indictment alleges that between 1996 and July 2004, based on these representations about the performance and size of the fund, HALIGIANNIS raised a total of approximately \$26,000,000 from approximately 80 different investors.

The Indictment alleges that from at least as early as in or about 1999, until on or about July 29, 2004, HALIGIANNIS engaged in a scheme to fraudulently and artificially inflate the performance of the Partnership - and the attendant value of each limited partner's interest in the Partnership - by grossly misrepresenting the Partnership's trading gains and by hiding massive trading losses.

Contrary to the performance results reflected in both reports to investors and promotional material distributed to potential investors, the Indictment alleges, between in or about January of 2000 and in or about January of 2003, Sterling Watters regularly lost money in its trading activity. The Indictment alleges that in 2000 alone, Sterling Watters - while reporting to investors that the Partnership's assets had grown by approximately 41.45% for the year - suffered over \$17,000,000 in trading losses. The Indictment alleges that by January of 2003, as a result of these systematic trading losses, Sterling Watters had virtually no assets and did virtually no trading whatsoever.

According to the Indictment, the fraudulent reports of the Partnership's performance, compounded over time, created an enormous disparity between the value of the limited partners' accounts as stated in quarterly reports and in promotional material, and the actual value of the limited partners' interests in the Partnership. The Indictment alleges that by the third quarter of 2003, when Sterling Watters promotional material reported that the Partnership had approximately \$180,000,000 assets, the Partnership's assets totaled less than \$150,000.

The Indictment alleges that by in or about 2003, because the Partnership had virtually no assets, HALIGIANNIS was unable to make distributions or to liquidate limited partners' interests unless the Partnership received corresponding contributions from new investors. Accordingly, and beginning in or about 2003, HALIGIANNIS allegedly began to refuse to make distributions from the Partnership or liquidate limited partners' interests until he received corresponding contributions from other investors. By in or about early 2004, in a manner similar to a traditional "Ponzi" scheme, HALIGIANNIS allegedly used new contributions almost exclusively to make distributions to existing limited partners or to fund withdrawals made by HALIGIANNIS for personal expenses.

HALIGIANNIS was arrested on a complaint issued in connection with this case on July 29, 2004. The Securities and Exchange Commission has filed a separate lawsuit against HALIGIANNIS and the Sterling Watters Group, LP.

HALIGIANNIS, age 33, resides in Manhattan. If convicted on all counts charged in the Indictment, he faces a maximum penalty of 25 years' imprisonment.

Mr. KELLEY praised the efforts of the United States Postal Inspection Service, and thanked the SEC for its assistance in the investigation of this case.

HALIGIANNIS is scheduled to be arraigned on the charges contained in the Indictment on Monday, October 4, 2004, at 4:00 p.m. before United States District Judge LAURA TAYLOR SWAIN.

Assistant United States Attorney ROBERTO FINZI is in charge of the prosecution.

The charges contained in the Indictment are merely accusations, and the defendant is presumed innocent unless and until proven guilty.

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